

## ***THE NEW MARKETS INITIATIVE (NMI)***

The Clinton Administration's *New Markets Initiative (NMI)* is a sweeping, public/private partnership designed to boost business opportunities in rural and inner city communities that are Low- or Moderate-Income (LMI) areas. The *New Markets Initiative* focuses existing and proposed Federal programs, including SBA's, on spurring economic growth in these geographical areas through proposed tax credits, venture capital companies, and technical assistance and mentoring programs.

SBA's role in the Clinton Administration's *NMI* expands on SBA's own stated objectives over the past several years. In pursuing its mission of increasing access to capital and business assistance, SBA has reached out to segments of the population that have experienced barriers in the marketplace and yet possess great untapped potential. SBA defines these prospective SBA customers – or New Markets – as minority-, women- and veteran-owned businesses, businesses in rural and inner city communities, including HUBZones, and newer, smaller businesses. These New Markets reflect the changing face of small business in the 21<sup>st</sup> century, and will remain a focal point of SBA outreach.

SBA's role in the Clinton Administration's *New Markets Initiative* includes:

- **New Markets Venture Capital Companies (NMVCs)**  
NMVCs will operate in a manner similar to SBA's Small Business Investment Company (SBIC) program, and will combine equity venture capital financing and technical assistance to smaller businesses located in LMI areas. Authorizing legislation is required to implement the NMVC program. In FY2000 \$6 million in funds were appropriated, subject to authorization, to provide \$40 million in SBA-backed funds, with an additional \$9 million appropriated for technical assistance. For FY2001, the President's Budget proposes \$21.66 million in credit subsidy to provide \$150 million in SBA-backed funds. \$30 million is requested for matching technical assistance grants.
- **Low-and Moderate-Income (LMI) Investments**  
This new funding mechanism provides regulatory and financial incentives to encourage SBICs and Specialized SBICs to expand their current investments in LMI areas. The final rule on this new category of investments was published in the Federal Register on September 30, 1999 (64 FR 52641), and the zero-coupon LMI debentures were introduced in June. No legislation is required to implement this proposal.

- **BusinessLINC Program**  
A partnership between SBA, the U.S. Department of the Treasury, and the business community (Business Roundtable) BusinessLINC encourages large businesses to work with small business owners as technical advisors and mentors – especially in America’s rural areas and inner cities. The President’s Budget for FY2001 provides \$6.6 million for this program (with \$1.25 million specifically targeted to Native Americans).
- **Program for Investment in Micro-Entrepreneurs (PRIME)**  
PRIME will provide microenterprise technical assistance through competitive grants to microenterprise development organizations that focus on very low-income entrepreneurs. The program will be managed by SBA’s Office of Financial Assistance. The President’s Budget for FY2001 provides \$15 million for this program.
- **HUBZone Empowerment Contracting Program**  
Established by the Small Business Reauthorization Act of 1997, this program promotes community empowerment, economic development, and job growth in “historically underutilized business” zones, by making Federal contracting incentives available to small firms that are located in, and employ residents of, such communities. The President’s Budget for FY2001 provides \$5 million for this program.
- **One Stop Capital Shops (OSCS) Initiative**  
The focus of this initiative is to provide small business services in partnership with Empowerment Zone (EZ) communities. Each OSCS is located in an economically distressed community, and targets untapped markets. The President’s Budget for FY2001 provides \$10 million for this program. There are currently 31 EZs and this budget request would fund the operation and/or establishment of a OSCS in each EZ by the end of FY2001.
- **Microloan Program**  
The Microloan Program makes loans up to \$750,000 to intermediaries who in turn make very small loans (\$25,000 and under, though SBA proposes to increase the limit to \$35,000 in FY2001) to entrepreneurs. These entrepreneurs traditionally have been considered “unbankable,” due to inexperience with credit, lack of assets, or the need for on-going technical assistance. The President’s Budget for FY2001 provides \$60 million for direct loans and \$45 million for Microloan technical assistance grants.

Additionally, SBA’s involvement in the *New Markets Initiative* will be closely aligned with two other Federal Agencies’ legislative proposals:

- **America’s Private Investment Companies (APICs)**

APICs are modeled on the Overseas Private Investment Corporation (OPIC) and SBA's SBIC program. APICs will provide private capital and government-backed funding to finance equity capital investment for the creation or relocation of large-scale businesses in inner cities and rural areas, and will be administered by the U.S. Department of Housing and Urban Development (HUD). Authorizing legislation is required to implement the APIC program. In FY2000, \$20 million in funds were appropriated subject to authorization.

- **New Markets Initiative Tax Credit**

The *New Markets Initiative* Tax Credit will be administered by the U.S. Department of the Treasury and will be worth up to 30 percent for investments in a wide range of investment vehicles serving New Markets communities, including NMVCs, APICs, community development banks, and other targeted investment funds. In FY2001, President Clinton is requesting \$3 billion to be used for *NMI* Tax Credits, which are designed to spur \$15 billion in private New Markets investments. For FY2000, the President requested spending \$1.2 billion over five years for such tax credits.

#### **Status of Authorizing Legislation for *NMI* Proposals**

- **NMVC, BusinessLINC, APICs and *NMI* Tax Credits** – On July 25, the House passed H.R. 4923, the Community Renewal and New Markets Act, by a vote of 394 to 27. On July 26, the Senate Small Business Committee held a mark up of S.1594, which was ordered to be reported out of committee. Both of these bills contain authorizing language for these four *NMI* proposals.
- The **PRIME, HUBZone, OSCS, and Microloan** Programs do not require authorizing legislation, but may need reauthorization in FY2001.